

**Calculation of NF-B Costs Prior to Peer Group Benchmark Comparisons
and Five Percent Total System Cap for the 2006/2007 Rate Period**

- I.** Column “**Audit Flag**” indicates whether audited data or as-submitted OSHPD data were used in the facility-specific rate calculation. Audited facilities are identified with a flag of “1,” representing that the audited cost report ending in calendar year 2004 was the primary data source for the facility’s rate-calculation.
- II. Direct Care Labor**
- A. Column “Allocated Direct Labor” is based on CY 2004 OHSPD or audit data (depending on whether your facility’s cost report ending in calendar year 2004 was audited), and includes:
1. Labor costs (permanent staff and temporary staff) for:
 - Skilled Nursing Personnel
 - Social Services Personnel
 - Activities Personnel
 2. To determine SNF-attributable costs for social services and activities personnel, labor costs are multiplied by the ratio of SNF direct expenses to total facility direct expenses (consistent with the OSHPD cost allocation methodology).
 3. Expenditures related to residential care are removed from labor costs.
- B. Column “Supplemental Adjustments to Direct Labor” is equal to the “Allocated Direct Labor” costs column, since no adjustments to Direct Care Labor result from the Supplemental Schedules for the 2006/07 rate period.
- C. Column “Audited Direct Labor” applies a facility-specific Direct Care Labor audit adjustment to the prior column (“Supplemental Adjustments to Direct Labor”).
1. This column will only differ from the prior column for facilities whose year-end 2004 cost report was not audited. If your facility’s 2004 cost report was audited, the audited expenditures are used in all calculations; therefore, you will not see any adjustments in this column.
 2. For facilities which were audited in 2003 but not in 2004, the 2003 year end “as reported” and “as audited” amounts from Audit Report Schedule 8, Lines 105.05, 155.04 and 160.04 from the audit report were used to determine the Direct Care Labor audit adjustment factor. This factor was multiplied by the amount in the prior column.¹
 3. Finalized audit appeals for cost reports ending in 2003 were considered in the calculation of the audit adjustment factor.
- D. Column “Inflated Direct Labor” applies an inflation factor to costs in the prior column.

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1. Direct labor costs are inflated from the mid-point of the facility's cost report period to the mid-point of the rate year (2/1/2007) using the Department's Labor Study.
- E. Column "Direct Labor Per Diem" represents the amount in the prior column divided by the facility's total skilled nursing days, as indicated in the second to last column.
1. On a facility-specific basis, the direct care per diem amount in this column is compared to the peer group's direct care benchmark per diem amount (set at the 90th percentile for labor costs). The lesser of the facility's cost per diem or the benchmark cost per diem is used in the final rate calculation.
 2. If your facility's 2004 year-end cost report was audited, total skilled nursing days are based on audited information. If the cost report was not audited, total skilled nursing days were obtained from as-submitted OSHPD data, page 4.1, line 5, column 6.

III. Indirect Care Labor

- A. Column "Allocated Indirect Labor" is based on CY 2004 OHSPD or audit data (depending on whether your facility's cost report ending in calendar year 2004 was audited), and includes:
1. Labor costs for:
 - Plant Operations and Maintenance Personnel
 - Housekeeping Personnel
 - Laundry/Linen Personnel
 - Dietary Personnel
 - In-Service Education Personnel
 2. To determine SNF-attributable costs for these personnel, each type of Indirect Care Labor cost is multiplied by the appropriate allocation ratio (using the OSHPD cost allocation methodology).
 3. Expenditures related to residential care are removed from labor costs.
- B. If your facility's 2004 cost report was audited, the audited expenditures are used in all calculations. The audited expenditures include temporary staff and medical records labor; therefore, you will not see any adjustments in the column labeled "Supplemental Adjustments to Indirect Labor. For unaudited facilities, the column "Supplemental Adjustments to Indirect Labor" is based on the "Allocated Indirect Labor" costs, plus any adjustments related to the labor portion of medical records reported on Supplemental Schedule 1 or indirect care agency personnel reported on Supplemental Schedule 2, as follows:
1. If your facility reported medical records labor costs on Supplemental Schedule 1, these costs were removed from Administration and added to

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Indirect Care Labor. These costs were limited to the 90th percentile per diem amount (based on all unaudited facilities reporting this expenditure).

2. If your facility reported indirect care agency expenditures, this amount is reimbursed as an Indirect Care Labor cost, and added to the costs in the column titled “Allocated Indirect Labor”. Indirect care agency expenses reported on Supplemental Schedule 2 were compared to as-submitted “other” OSHPD expenditures on page 10.1, column 3 for each indirect care line item. Agency expenditures were limited to the SNF-attributable “other” expenses that the facility reported on its as-submitted OSHPD report.

C. Column “Audited Indirect Labor” applies a facility-specific Indirect Care audit adjustment to the prior column (“Supplemental Adjustments to Indirect Labor”).

1. This column will only differ from the prior column for facilities whose year-end 2004 cost report was not audited. If your facility’s 2004 cost report was audited, the audited expenditures are used in all calculations; therefore, you will not see any adjustments in this column.
2. For facilities which were audited in 2003 but not in 2004, the 2003 year end “as reported” and “as audited” amounts from Schedule 8, Lines 5.04, 10.04, 60.04, 65.04 and 170.04 from the audit report were used to determine the Indirect Care Labor audit adjustment factor. This factor was multiplied by the amount in the prior column.¹
3. Finalized appeals for cost reports ending in 2003 were considered in the calculation of the audit adjustment factor.

D. Column “Inflated Indirect Labor” applies an inflation factor to the costs in the prior column.

1. Indirect labor costs are inflated from the mid-point of the facility’s cost report period to the mid-point of the rate year (2/1/2007) using the Department’s Labor Study.

E. Column “Indirect Labor Per Diem” represents the amount in the prior column divided by the facility’s total skilled nursing days, as indicated in the second to last column.

1. Each facility’s per diem amount is compared to its peer group’s benchmark per diem amount (set at the 90th percentile for labor costs). The lesser of the facility’s cost per diem or the benchmark cost per diem is used in the final rate calculation.
2. If your facility’s 2004 year-end cost report was audited, total skilled nursing days are based on audited amounts. If not, total skilled nursing days were obtained from as-submitted OSHPD data, Page 4.1, line 5, column 6.

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IV. Direct and Indirect Care Non-Labor

- A. Column “Allocated Direct/Indirect Non-Labor” is based on CY 2004 OHSPD or audit data (depending on whether your facility’s cost report ending in calendar year 2004 was audited), and includes:
1. Non-labor costs for:
 - Skilled Nursing Personnel
 - Social Services Personnel
 - Activities Personnel
 - Plant Operations and Maintenance Personnel
 - Housekeeping Personnel
 - Laundry/Linen Personnel
 - Dietary Personnel
 - In-Service Education Personnel
 2. To determine SNF-attributable costs for these personnel, each type of non-labor cost is multiplied by the appropriate allocation ratio (using the OSHPD cost allocation methodology).
- B. If your facility’s 2004 cost report was audited, the audited expenditures are used in all calculations. The audited expenditures include temporary staff and medical records non-labor costs; therefore, you will not see any adjustments in the column labeled “Supplemental Adjustments to Direct/Indirect Non-Labor”. For unaudited facilities, the column labeled “Supplemental Adjustments to Direct/Indirect Non-Labor” is based on the “Allocated Direct/Indirect Non-Labor” costs, plus any adjustments related to medical records non-labor costs reported on Supplemental Schedule 1, and less any adjustments related to indirect care agency personnel reported on Supplemental Schedule 2.
1. If your facility reported medical records non-labor costs on Supplemental Schedule 1, these costs were removed from Administration and added to Direct/Indirect Care Non-Labor. These medical records supplemental costs were limited to the 90th percentile per diem amount (based on all facilities reporting this expenditure).
 2. If your facility reported indirect care agency expenditures, this amount is reimbursed as an Indirect Care Labor cost, and removed from the column labeled “Allocated Direct/Indirect Care Non-Labor”. Indirect care agency expenses reported on Supplemental Schedule 2 were compared to as-submitted “other” OSHPD expenditures on page 10.1, column 3 for each indirect care line item. Agency expenditures were limited to the SNF-attributable “other” expenses that the facility reported on its as-submitted OSHPD report.

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- C. Column “Audited Direct/Indirect Non-Labor” applies a facility-specific audit adjustment by cost grouping to the prior column (“Supplemental Adjustments to Direct/Indirect Non-Labor”).
1. This column will only differ from the prior column for facilities whose year-end 2004 cost report was not audited. If your facility’s 2004 cost report was audited, the audited expenditures are used in all calculations; therefore, you will not see any adjustments in this column.
 2. For facilities which were audited in 2003 but not in 2004, the 2003 year end “as reported” and “as audited” amounts from Schedule 8, Lines 5.04, 10.04, 60.04, 65.04 and 170.04 from the audit report were used to determine the audit adjustment factor. This factor was multiplied by the amount in the prior column.¹
 3. Finalized appeals for cost reports ending in 2003 were considered in the calculation of the audit adjustment factor.
- D. Column “Inflated Direct/Indirect Non-Labor” applies an inflation factor to costs in the prior column.
1. Non-labor costs are inflated from the mid-point of the facility’s cost report period to the mid-point of the rate year (2/1/2007) using the California CPI.
- E. Column “Direct/Indirect Non-Labor Per Diem” represents the amount in the prior column divided by the facility’s total skilled nursing days, as indicated in the second to last column.
1. Each facility’s per diem amount is compared to its peer group’s benchmark per diem amount (set at the 75th percentile for direct/indirect non-labor costs). The lesser of the facility’s cost per diem or the benchmark cost per diem is used in the final rate calculation.
 2. If your facility’s 2004 year-end cost report was audited, total skilled nursing days are based on audited amounts. If not, total skilled nursing days were obtained from as-submitted OSHPD data, Page 4.1, line 5, column 6.

V. Administration

- A. Column “Allocated Admin” is based on CY 2004 OHSPD or audit data (depending on whether your facility’s cost report ending in calendar year 2004 was audited), and includes:
1. Total costs for:
 - Administration
 - Property Insurance
 - Interest – Other

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2. To determine SNF-attributable costs for these expenditures, each type of Administration cost is multiplied by the appropriate allocation ratio (using the OSHPD cost allocation methodology).
- B. If your facility's 2004 cost report was audited, the audited expenditures are used in all calculations; therefore, you will not see any adjustments in the column labeled "Supplemental Adjustments to Admin". For unaudited facilities, the column titled "Supplemental Adjustments to Admin" is based on the "Allocated Admin" costs, less certain adjustments reported on Supplemental Schedule 1. The 2004 audited expenditures already reflect these adjustments.
1. In order for certain costs to be paid as a pass-through, expenditures for those areas were removed from the Administration cost grouping for unaudited facilities, as follows:
 - Liability insurance costs were removed from the Administration cost grouping based on the reported supplemental expense.
 - Caregiver training costs were removed from the Administration cost grouping based on the reported supplemental expense.
 - License fees incurred during the facility's cost report period were estimated based on the average license fee per bed paid in 2004, multiplied by the total number of licensed beds. If the facility cost report period was greater or less than twelve months, the total license fees were pro-rated to reflect an annualized cost report period. A SNF-attributable portion of this total estimated amount was removed from the Administration cost grouping, in order to pay the prospective license fees as a pass-through.
 2. For unaudited facilities, medical records costs reported on Supplemental Schedule 1 were removed from the Administration cost grouping and reclassified into the Indirect Labor cost grouping (labor portion of medical records) and the Direct/Indirect Care Non-Labor cost grouping (non-labor portion of medical records). Reported medical records labor costs and non-labor costs were limited to the 90th percentile per diem cost of all unaudited NF-Bs reporting medical records expenditures on Supplemental Schedule 1.
- C. Column "Audited Admin" applies a facility-specific Administration audit adjustment to the prior column ("Supplemental Adjustments to Admin").
1. This column will only differ from the prior column for facilities whose year-end 2004 cost report was not audited. If your facility's 2004 cost report was audited, the audited expenditures are used in all calculations; therefore, you will not see any adjustments in this column.
 2. For facilities which were audited in 2003 but not in 2004, the 2003 year end "as reported" and "as audited" amounts from Schedule 8, Lines 45, 55 and 165.07 from the audit report were used to determine the Administration audit

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adjustment factor. This factor was multiplied by the amount in the prior column.¹

3. Finalized appeals for cost reports ending in 2003 were considered in the calculation of the audit adjustment factor.

D. Column “Inflated Admin” applies an inflation factor to costs in the prior column.

1. Administration costs are inflated from the mid-point of the facility’s cost report period to the mid-point of the rate year (2/1/2007) using the California CPI.

E. Column “Admin Per Diem” represents the amount in the prior column divided by the facility’s total skilled nursing days, as indicated in the second to last column.

1. Each facility’s per diem amount is compared to its peer group’s benchmark per diem amount (set at the 50th percentile for administration costs). The lesser of the facility’s cost per diem or the benchmark cost per diem is used in the final rate calculation.
2. If your facility’s 2004 year-end cost report was audited, total skilled nursing days are based on audited amounts. If not, total skilled nursing days were obtained from as-submitted OSHPD data, Page 4.1, line 5, column 6.

VI. Property Taxes

A. Column “Allocated Property Tax” is based on CY 2004 OHSPD or audit data (depending on whether your facility’s cost report ending in calendar year 2004 was audited), and includes:

1. Total costs for:
 - Property Taxes
2. To determine SNF-attributable costs for property tax expenditures, total costs are multiplied by the ratio of the facility’s SNF square feet to total facility square feet (consistent with the OSHPD cost allocation methodology).

B. No adjustments to property tax expenditures result from Supplemental data. Column “Supplemental Adjustments to Property Tax” is equal to “Allocated Property Tax” for all facilities.

C. Column “Audited Property Tax” applies a facility-specific Property Tax audit adjustment to the prior column (“Supplemental Adjustments to Property Tax”).

1. This column will only differ from the prior column for facilities whose year-end 2004 cost report was not audited. If your facility’s 2004 cost report was

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audited, the audited expenditures are used in all calculations; therefore, you will not see any adjustments in this column.

2. For facilities which were audited in 2003 but not in 2004, the 2003 year end “as reported” and “as audited” amounts from Schedule 8, Line 40 from the audit report were used to determine the property tax audit adjustment factor. This factor was multiplied by the amount in the prior column.¹
 3. Finalized appeals for cost reports ending in 2003 were considered in the calculation of the audit adjustment factor.
- D. Column “Inflated Property Tax” applies an inflation factor to costs in the prior column.
1. Property taxes are inflated from the mid-point of the facility’s cost report period to the mid-point of the rate year (2/1/2007) at the rate of two percent per annum (or 0.16667% per month).
- E. Column “Property Tax Per Diem” represents the amount in the prior column divided by the facility’s total skilled nursing days, as indicated in the second to last column. The per diem amount is paid as a pass-through.

VII. Labor-Driven Operating Allocation

- A. Column “Allocated Direct Labor (no temp)” contains SNF-attributable expenditures for permanent facility direct care staff. Expenditures related to residential care are removed from labor costs. The information in this column is calculated by removing the facility’s SNF-attributable temporary direct care labor costs from the “Allocated Direct Labor” column.
- B. Column “Audited Direct Labor” applies a facility-specific Direct Labor audit adjustment (see II. C. for details).
- C. Column “Inflated Direct Labor” applies an inflation factor to costs in the prior column (see. II. D. for details).
- D. Column “Allocated Indirect Labor (no temp)” contains SNF-attributable expenditures for permanent facility indirect care staff. Expenditures related to residential care are removed from labor costs. The information in this column is calculated by determining the facility’s SNF-attributable permanent indirect care labor costs, including the indirect labor costs for medical records personnel.
- E. Column “Audited Indirect Labor” applies a facility-specific Indirect Labor audit adjustment to the prior column (see III. C. for details).
- F. Column “Inflated Indirect Labor” applies an inflation factor to the expenditures in the prior column (see III. D. for details).

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- G. Column “Uncapped Per Diem” represents the total permanent direct and indirect care inflated labor costs divided by the facility’s total skilled nursing days. This per diem amount is limited to five percent of the total AB1629 rate on a facility-specific basis.

VIII. Other Pass-Through Costs

- A. Prospective license fees (effective 8/1/06) are calculated using the facility’s average licensed beds multiplied by the fee per bed (\$202.96). The total fee amount is divided by the facility’s total skilled nursing days to arrive at the pass-through per diem amount (Columns “Prospective License Fees” and “License Fee Per Diem”).
- B. The liability insurance pass-through per diem was based on SNF-attributable costs reported on Supplemental Schedule 1.
1. Liability insurance expenditures were inflated from the mid-point of the facility’s cost report period to the mid-point of the rate year using the California CPI.
 2. The liability insurance pass-through per diem represents the amount in the prior column divided by the facility’s total skilled nursing days.
- C. For unaudited facilities, caregiver training costs reported on Supplemental Schedule 1 were used to calculate the caregiver training pass-through. For audited facilities, the 2004 audit data was used to calculate the pass-through.
1. Caregiver training expenditures were inflated from the mid-point of the facility’s cost report period to the mid-point of the rate year (2/1/2007) using the California CPI.
 2. The caregiver training pass-through per diem represents the amount in the prior column divided by the facility’s total skilled nursing days, as indicated in the second to last column.

IX. FRVS

- A. FRVS per diems were calculated based on parameters outlined in the revised State Plan Amendment and are reflected in the column “FRVS.” The RS Means Construction Cost Data was used to estimate facility-specific building values, based on facility location and bed size. Building value was increased based on an estimate of equipment and land values. Building and equipment values were depreciated and compared to a minimum facility value, based on a maximum facility age of 34 years. The depreciated building and equipment value was added to the estimate for land, and multiplied by a rental factor (currently seven percent) to derive the FRVS per diem. For the 2006/07 rate period, facilities submitting voluntary capital

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supplemental schedules that were accepted by the Department were considered in the final FRVS per diem calculation.

X. Quality Assurance (QA) Fee

- A. Each facility that will be assessed the QA fee in 2006/07 will be reimbursed for the Medi-Cal portion of its QA fee. Facilities that are exempt from the fee will not receive additional reimbursement for this cost. The per diem fee included in the 2006/07 rate is included in the “QA Fee” column.

¹ Per discussion and agreement with the California Association of Health Facilities, outliers have been removed from the audit adjustment calculation.